



# **PRICE VARIATION IN MASSACHUSETTS HEALTH SERVICES**

## **FINDINGS FROM REPORT ON EXAMINATION OF HEALTH CARE COST TRENDS AND COST DRIVERS PURSUANT TO G.L. c. 118G, § 6½(b)**

**JUNE 28, 2011**

**OFFICE OF ATTORNEY GENERAL MARTHA COAKLEY**

**ONE ASHBURTON PLACE • BOSTON, MA 02108**

# MEASURING HEALTH CARE COSTS

## PRICE

- The amount an insurance company pays a hospital or physician for a health care service that its member consumes.

## TOTAL MEDICAL EXPENSES (TME)

- Price of all services X utilization (number of services consumed).
- TME is often expressed as a per patient, per month figure, and attributed to the patient's primary physician group. This shows, for each physician group, how much health care the group's patients consume on average in a month.

**THERE IS WIDE VARIATION IN PRICES  
IN EACH MAJOR INSURER'S NETWORK**

**% Difference in Hospital Prices**

	2008	2009
BCBS	180%	170%
HPHC	300%	350%
THP	240%	300%

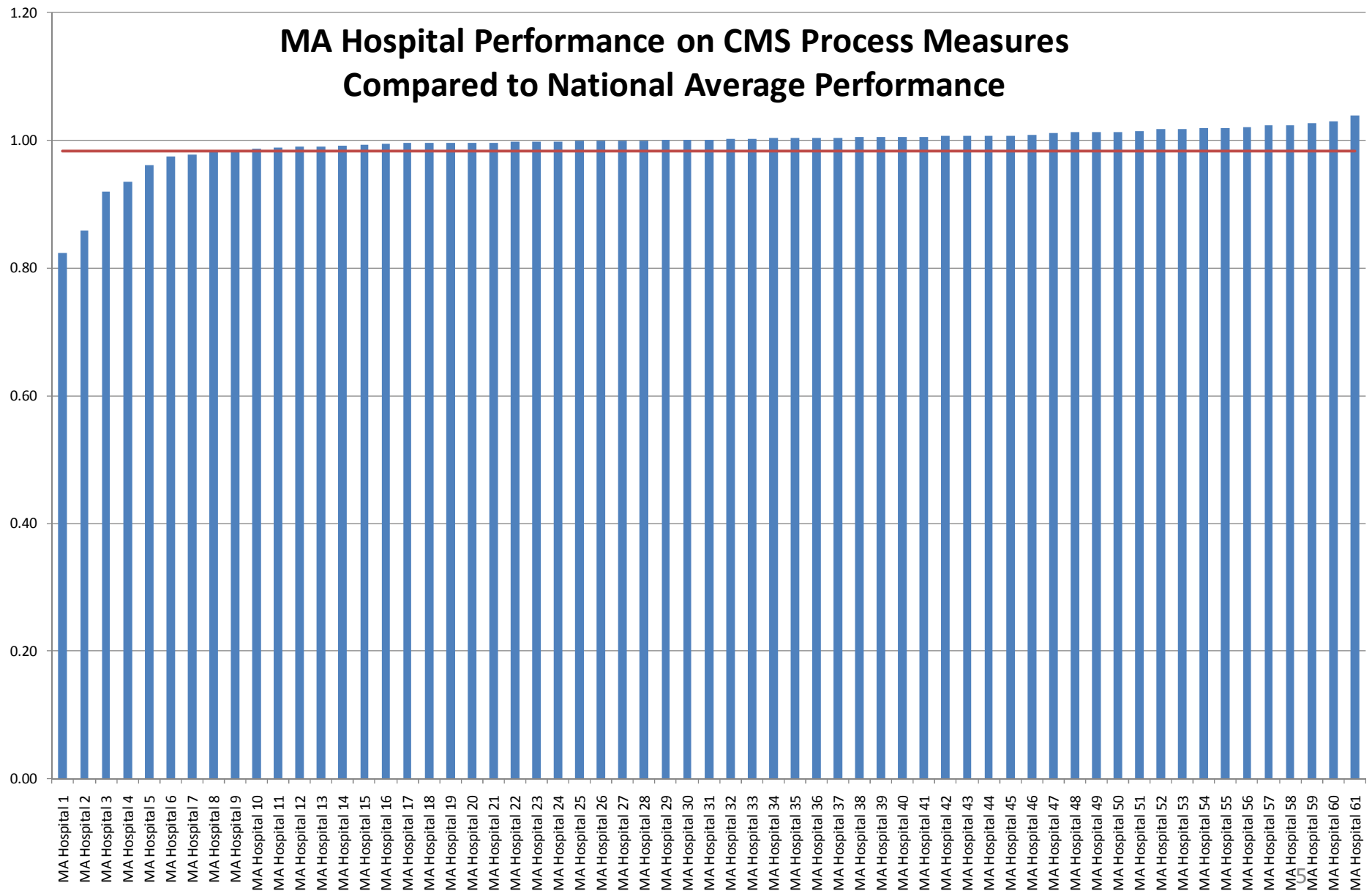
**% Difference in Physician Prices**

	2008	2009
BCBS	220%	240%
HPHC	130%	230%
THP	130%	150%

# MEASURING HEALTH CARE QUALITY

- The AGO reviewed the best available quality measures from state and national agencies and nonprofit organizations, all well-vetted and widely accepted.
- The AGO reviewed measures of both hospital and physician quality, focusing on outcome measures where available.
- With expert assistance, the AGO examined:
  - How MA providers perform on quality compared to one other, and compared to their national peers.
  - Whether differences in price are adequately explained by differences in quality.

# MA PROVIDERS HAVE CONSISTENTLY HIGH QUALITY PERFORMANCE



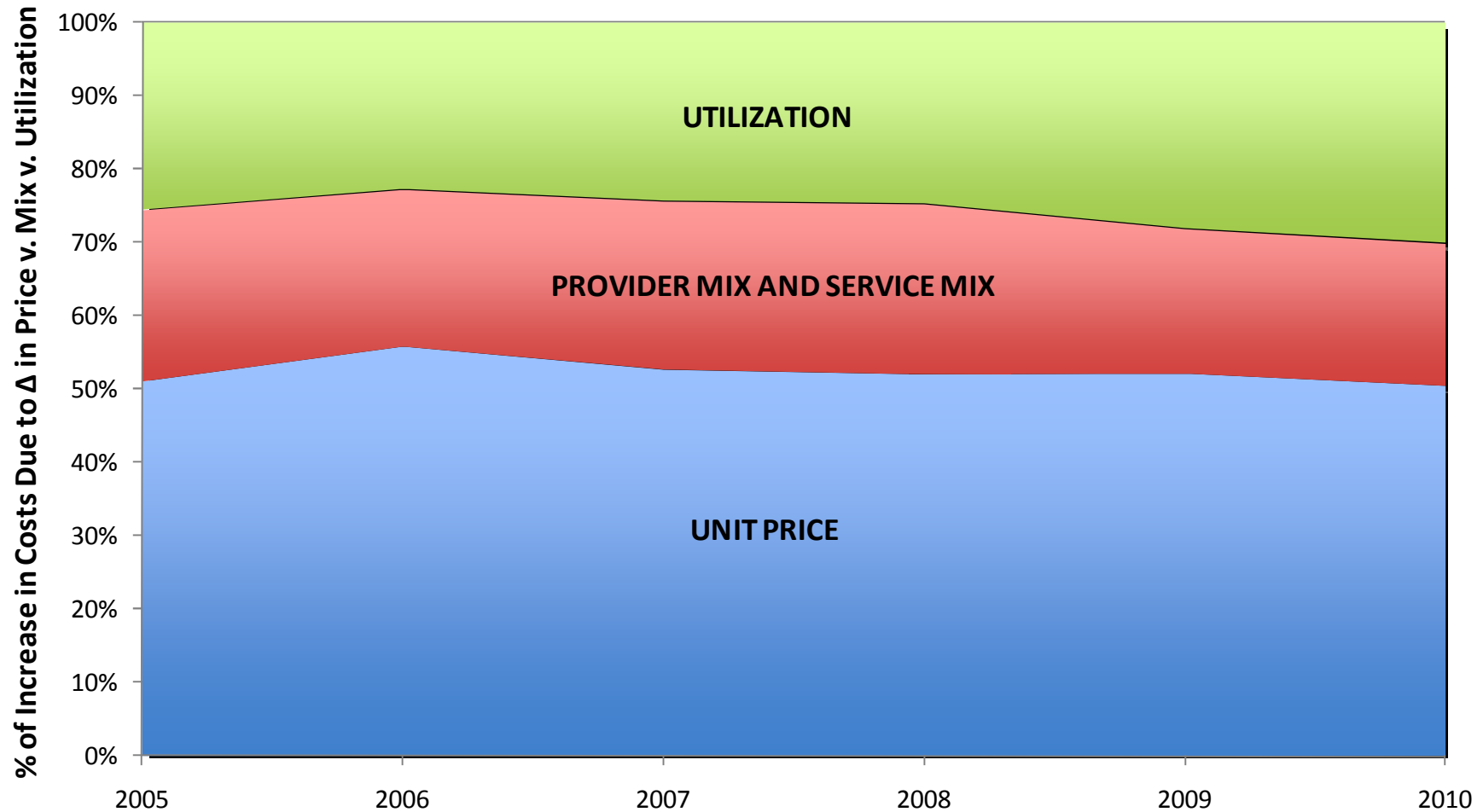
**TESTIMONY IN THESE COST TREND HEARINGS SHOW  
SIGNIFICANT DIFFERENCES IN HOSPITAL REPORTED MARGINS**

HOSPITAL	Commercial Payer Margin	Government Payer Margin
Academic Medical Center 1	3.7%	-3.0%
Academic Medical Center 2	15.0%	-6.9%
Academic Medical Center 3	21.4%	-33.0%

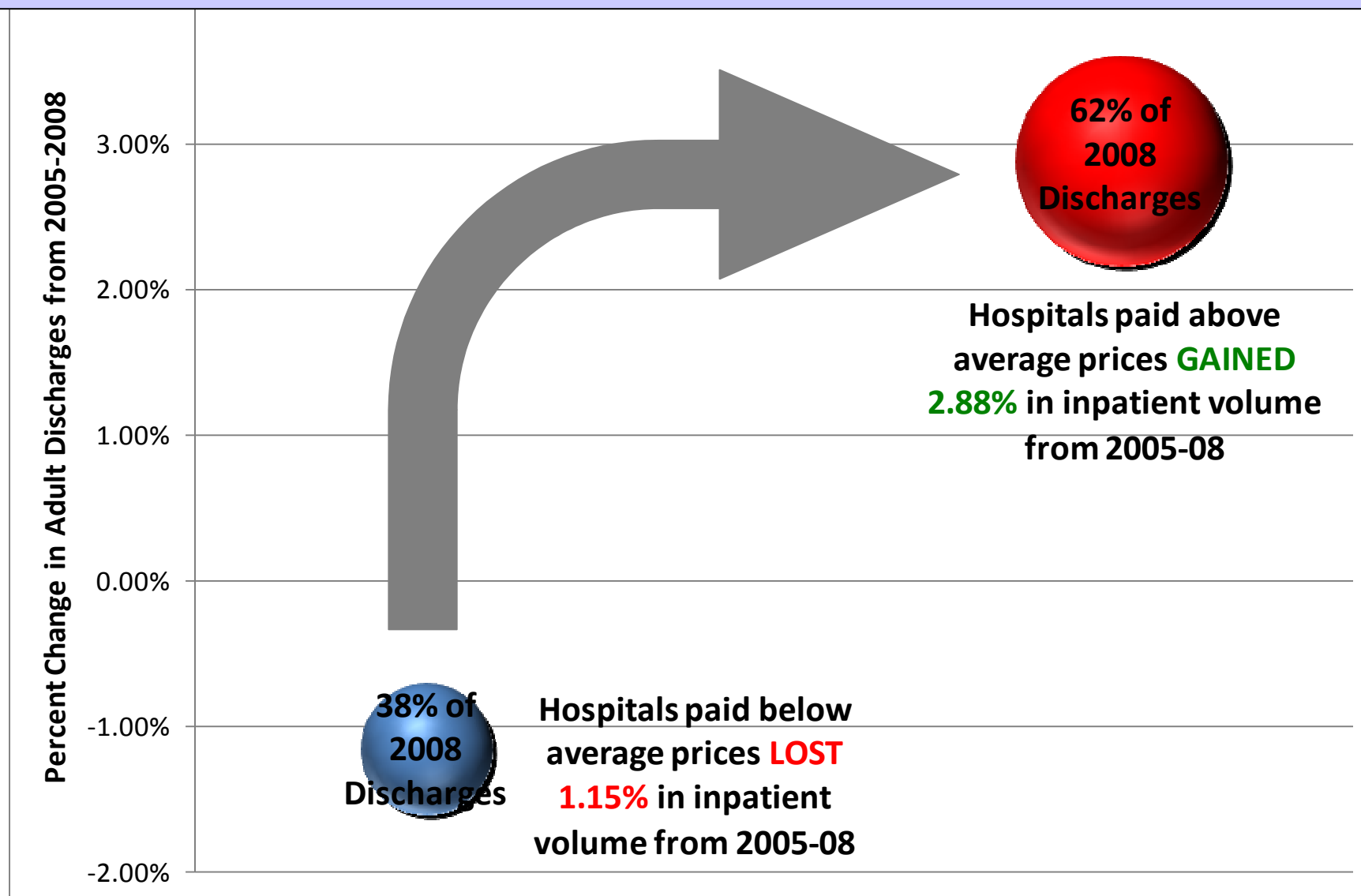
*“[U]nusually high hospital margins on private-payor patients can lead to more construction, higher hospital cost, and lower Medicare margins. The data suggest that when non-Medicare margins are high, hospitals face less pressure to constrain costs, costs rise, and Medicare margins tend to be low.”*

- MedPAC, Report to Congress, March 2009, page xiv.

## PRICE INCREASES CAUSED THE MAJORITY OF THE INCREASES IN HEALTH CARE COSTS IN THE LAST SIX YEARS



## FROM 2005-2008, MORE EXPENSIVE PROVIDERS GAINED MARKET SHARE AT THE EXPENSE OF LESS EXPENSIVE PROVIDERS



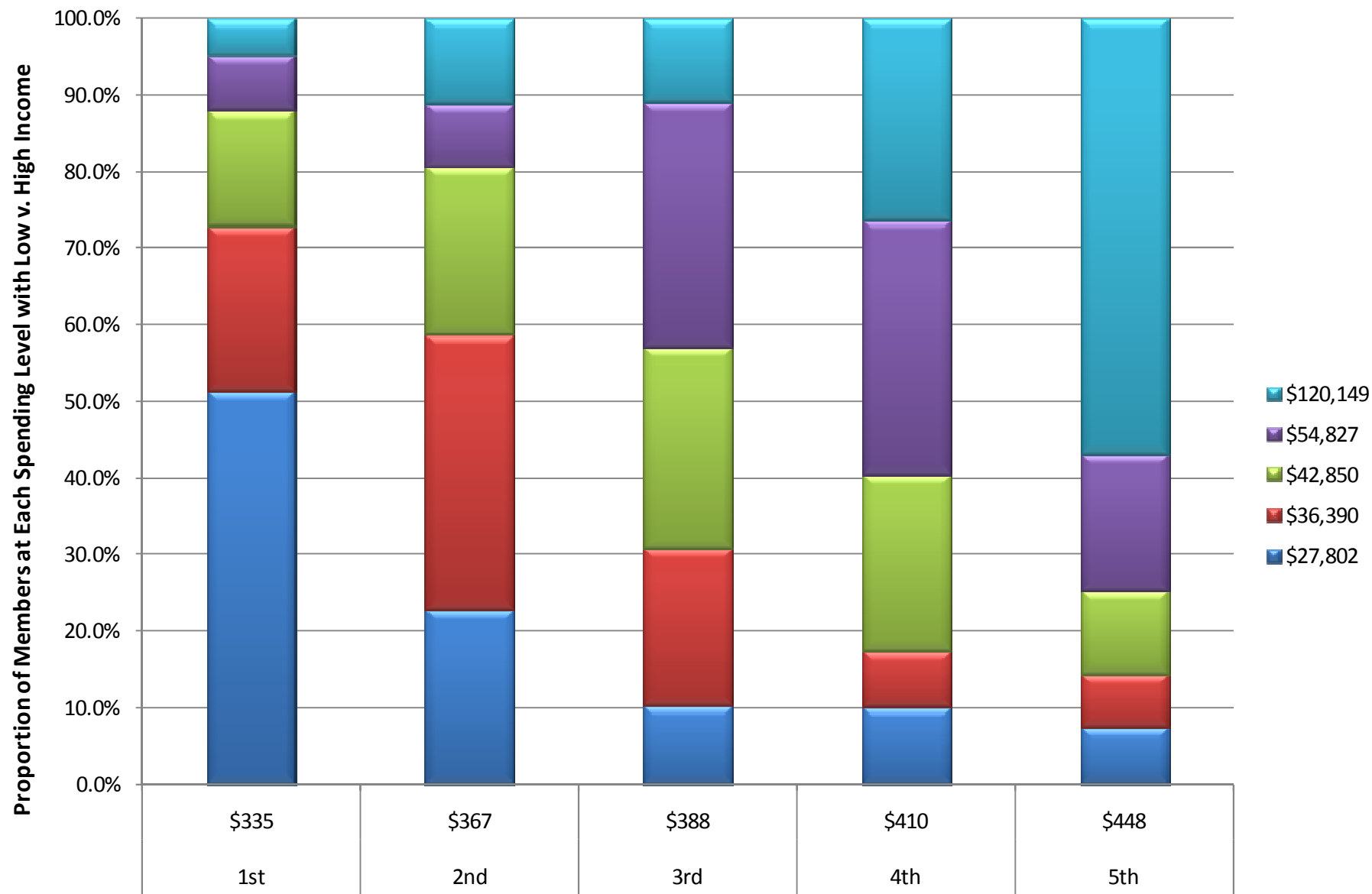
Note: Statewide discharges increased by 1.3% from 2005 to 2008.



## **TOTAL MEDICAL SPENDING IS HIGHER FOR THE CARE OF PATIENTS FROM HIGHER-INCOME COMMUNITIES**

- We received health status adjusted TME information for all commercial members in the BCBS, HPHC, and THP networks. This includes both HMO and PPO members.
- For each Massachusetts zip code, we compared average TME for members living in that zip code with average income for that zip code, as reported on 2007 federal income tax returns.
- The next graph shows that total medical spending for the care of patients from higher-income zip codes is higher on a health-status adjusted basis than total medical spending on the care of patients from lower-income zip codes.

# TOTAL MEDICAL SPENDING IS HIGHER FOR THE CARE OF PATIENTS FROM HIGHER-INCOME COMMUNITIES



Members of Major Health Plan by Spending Quintile (As Measured by PMPM Health Status Adjusted TME)

Jennifer Smagula, FSA, MAAA

## **RECOMMENDATIONS**

- Tiered and limited network products that reward value-based purchasing, so that (1) consumers who get care at high-quality, lower-cost providers are appropriately rewarded with savings and (2) high-quality, lower-cost providers are rewarded for their efficiency with patient volume.
- Temporary statutory restrictions on how much prices may vary for comparable services.